

Message Text

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PAGE 01 STATE 062984
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TREAS/WIDMAN (DRAFT)

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FM SECSTATE WASHDC

TO AMEMBASSY LISBON IMMEDIATE

C O N F I D E N T I A L STATE 062984

LIMDIS

E.O. 11652: GDS

TAGS: ECON, EFIN, PO

SUBJECT: PORTUGUESE-IMF NEGOTIATIONS

REF: A. LISBON 1623 B. LISBON 1624

1. SUMMARY: AMBASSADOR'S COMMENTS ARE INVITED ON OUR PROPOSAL (PARA 4) FOR CONCLUDING BY EARLY APRIL AN IMF-GOP SECOND TRANCHE AGREEMENT THAT PROVIDES MEANINGFUL ECONOMIC RECOVERY MEASURES. END SUMMARY.

2. AS FORECAST IN REFTELS, IMF NEGOTIATORS RETURNED TO WASHINGTON DISAPPOINTED WITH LAST WEEK'S TALKS. THE IMF NEGOTIATORS HAVE REPORTED THE SITUATION TO THE EXECUTIVE CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 062984

DIRECTORS FROM THE FRG, UK, FRANCE, JAPAN AND THE U.S. AND HAVE ASKED FOR GUIDANCE. THIS IS A UNIQUE REQUEST BY THE FUND BUT USEFUL BECAUSE OUR BILATERAL MEDIUM-TERM CREDITS ARE CLOSELY LINKED TO AN IMF STANDBY.

3. THE ISSUES PRESENTED TO OUR EXECUTIVE DIRECTOR ARE:
(A) WHETHER THE FUND SHOULD REQUIRE THE GOP TO TAKE

INTEREST RATE AND EXCHANGE RATE MEASURES BEFORE THE FUND BEGINS FORMAL NEGOTIATIONS FOR A STANDBY; OR (B) WHETHER THE FUND SHOULD ACCEPT THE PORTUGUESE REQUEST TO BEGIN NEGOTIATIONS BEFORE THOSE MEASURES ARE TAKEN. THE FUND

STAFF BELIEVES THAT THE GOP WILL NOT IMPLEMENT NECESSARY INTEREST AND EXCHANGE RATE MEASURES UNLESS THEY ARE TAKEN BEFORE FORMAL NEGOTIATIONS BEGIN. THE FUND STAFF WISHES TO MAXIMIZE GOP COMMITMENTS BY TAKING ADVANTAGE OF THE LEVERAGE PROVIDED BY THE LINKAGE OF THE U.S., GERMAN AND JAPANESE MEDIUM-TERM CREDITS TO A SECOND CREDIT TRANCHE STAND-BY AGREEMENT.

4. WE PROPOSE TO ADVISE THE FUND THAT WHILE TACTICS OF NEGOTIATIONS ARE MATTERS FOR THE FUND TO DECIDE, WE ARE MOST ANXIOUS TO SEE AN EARLY AGREEMENT WHICH PROMISES AS EFFECTIVE AN ECONOMIC PROGRAM AS POSSIBLE. THE FUND STAFF SHOULD RETURN TO LISBON AS SOON AS THE GOP HAS INDICATED IT IS READY TO NEGOTIATE SERIOUSLY ON THE KEY OUTSTANDING ISSUES. WE FULLY SUPPORT THE FUND'S POSITION THAT MORE HAS TO BE DONE IN THE AREA OF INTEREST RATES AND EXCHANGE RATES IF PORTUGAL'S CURRENT ACCOUNT DEFICIT IS TO BE REDUCED TO A FINANCEABLE LEVEL, AND WE WOULD SO ADVISE THE GOP. HOWEVER, PROLONGED NEGOTIATIONS OVER A STAND-BY WOULD BE COUNTER-PRODUCTIVE IN TERMS OF CONFIDENCE IN THE GOP AND ITS POLICIES, WE BELIEVE.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 062984

5. FOLLOWING RECEIPT OF YOUR COMMENTS, WE PLAN TO CONSULT WITH THE OTHER MAJOR LENDING COUNTRIES, PARTICULARLY GERMANY AND JAPAN, BEFORE ADVISING THE FUND.

6. ACTION: WE WOULD APPRECIATE HAVING YOUR VIEWS ON THE GUIDANCE PROPOSED IN PARAGRAPH 4 BY THE OPENING OF BUSINESS, MARCH 14.

7. PLEASE DO NOT RPT NOT DISCUSS THE PROPOSED GUIDANCE IN PARAGRAPH 4 WITH OTHER PARTICIPANTS IN THE LENDING EFFORT. VANCE

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